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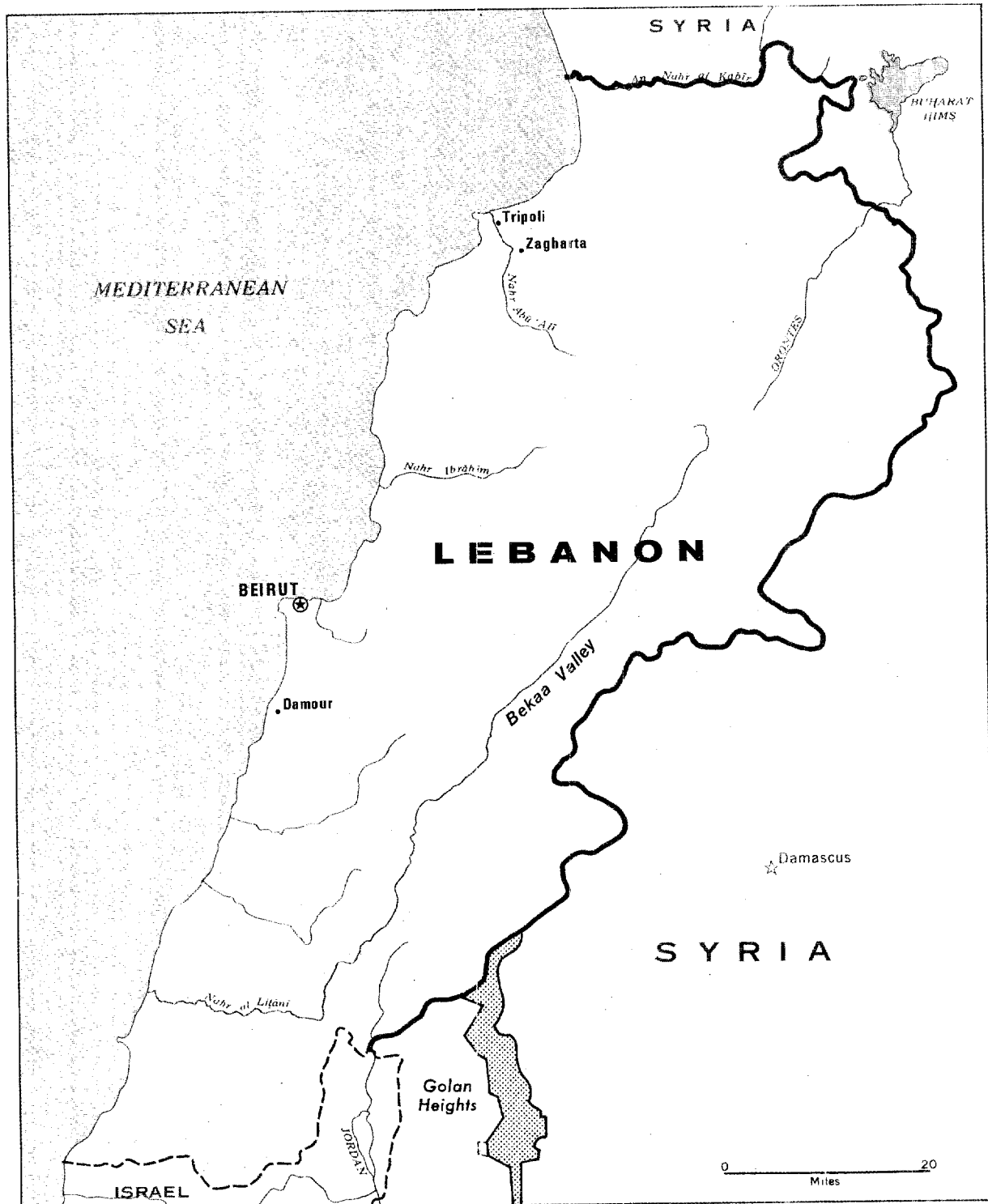
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LEBANON

Prime Minister Karami's statement yesterday that he will resign could lead to the collapse of most remaining government authority in Lebanon and to an all out battle between the Lebanese army and the Palestinians.

Karami, a Muslim, has been the only effective impediment to Interior Minister Shamun's strategy of unrestrained use of the army. Although the army and the main line Palestinian units have already become heavily involved in the fighting, both have appeared to hold the bulk of their forces in reserve.

President Franjiah will come under great pressure from Syria and moderate Lebanese politicians—Christian and Muslim—to ask Karami to stay on. The temperate language of Karami's statement yesterday suggests that he might stay on and even welcome an appeal to do so.

Karami may calculate that the security situation will deteriorate further and that Syrian sponsored peace negotiations will make no progress while Franjiah is attempting to find a new prime minister. Karami would hope that this would force Franjiah to acknowledge that Karami, despite their personal feud, is the only strong Lebanese Muslim politician who retains good relations with the Syrians and Palestinians and some ability to influence the Lebanese leftists.

Karami would probably agree to stay on only if Franjiah promised to halt the growing use of the Lebanese armed forces, force the Phalangists to end their attacks on Palestinian and leftist positions in Beirut, and resume serious political negotiations.

Franjiah has several alternatives to asking Karami to stay on. He could appoint a weak Sunni Muslim prime minister, install a predominately military cabinet, as he did last May, or rule by presidential decree. Any of these moves would be opposed by the Syrians, Palestinians, and Lebanese leftists. No government formed in these ways could restore civil order and negotiate an end to the crisis in Lebanon.

The ceasefire announced by Karami over the weekend never really went into effect as Christian and Muslim militiamen battled in Beirut as well as in and around several Christian towns to the south. The Beirut fighting was the heaviest as Christian militia forces launched an attack on a Muslim district on the waterfront to establish a supply route across the Beirut River and Muslim militiamen attempted to dislodge Phalangist forces holed up in the city's downtown hotel district. Beirut's international airport remains closed.

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Skirmishing continued to the south at Damour and several other nearby Christian towns between Muslim leftists and Palestinian forces on the one side and rightist Christian and Lebanese army elements on the other. Interior Minister Shamun, the most powerful Christian in Karami's old cabinet, is at his home in one of the embattled towns.

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LEBANON

Nine months of civil war in Lebanon have brought the economy to a near standstill. A clear cessation of hostilities would eventually bring back many foreign firms but would not guarantee a return to prewar levels of economic activity.

With few natural resources of its own, Lebanon has had to rely on its role as a commercial center in the Middle East to generate foreign exchange. The liberal economic policies of successive governments, together with a strong currency, have promoted large capital movement into Lebanon and rapid growth in earnings from banking and commercial services.

Lebanon's prosperity hit a peak in 1974, at a time when the economies of other countries were suffering from higher oil prices. Arab petrodollars helped Lebanon achieve a record balance-of-payments surplus, allowing it to add \$650 million to its foreign exchange reserves. Net capital movement into the country reached \$875 million, compared with a previous high of \$280 million in 1971.

Tourism rebounded sharply from 1973, when it was dampened by the October war and Palestinian guerrilla clashes. Inflation held the real growth in gross national product in 1974 to 3 to 4 percent, but price increases abated later in the year.

The fighting that began in Lebanon last April has completely reversed the picture. Production in Beirut is all but stopped, and the country is split into isolated sectors: Tripoli and the Muslim north, Beirut, and the Palestinian south. *

Unemployment has reached at least 75,000, and between 150,000 and 200,000 skilled foreign workers have left the country. Lebanese white-collar workers have begun to leave as well. Most important, the conflict has caused the wholesale evacuation of the foreign business community, the backbone of the banking-commercial sector, which in the past generated 70 percent of Lebanon's gross national product.

The latest Lebanese estimate of the economic cost of the war, made last October, put physical damage and commercial losses at nearly \$3.5 billion—equivalent to the country's total gross national product in 1974. Heavy fighting since then has added greatly to the toll.

Gross national product in 1975 could be down as much as 20 percent, and Lebanon may have had its first balance-of-payments deficit since 1967. Distribution problems are severe in Beirut, with serious food shortages reported in some areas of the capital; according to some estimates, the shortages will spread throughout the city in another week.

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No end to the fighting is in sight. When the conflict is resolved and some sort of political stability is restored, Lebanon will be left with a long recovery period, probably requiring substantial foreign assistance.

Foreign business enterprises will not return quickly. Many have already set up shop elsewhere or are planning to operate from abroad through Middle East branch offices. Many of the foreign workers who have fled the country have found positions in Amman, Kuwait, and other Arab cities. They are not likely to rush back to Beirut when the conflict ends.

Lebanon will be saddled with a number of economic problems this year unrelated to the fighting. An agreement with Iraq that provided 50 percent of Lebanon's petroleum consumption expired in December. The contracted price of \$3.05 a barrel probably will rise to the world market price, adding \$175 million to Lebanon's import bill.

Lebanon also owes the Saudi pipeline carrier \$100 million in back payments, and negotiations over future deliveries have yet to be settled. Beirut will have to dig into its \$1.7 billion in foreign exchange reserves to cover an expected large balance-of-payments deficit in 1976.

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CYPRUS

Greek Cypriot negotiator Clerides withdrew his resignation Saturday, removing one of the obstacles to a resumption of the intercommunal talks in Vienna in mid-February.

Clerides refused to spell out publicly his reasons for resigning in the first place,



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Clerides was apparently responding to "heavy pressure" from Athens when he withdrew his resignation. If the stalled intercommunal talks are to resume in Vienna as scheduled, there will have to be similar pressure from Ankara on the Turkish Cypriot negotiator, Rauf Denktash.

Denktash's obstructionist tactics have already caused a change in the venue of the talks from New York to Vienna, and UN Secretary General Waldheim is now worried that the talks may be scuttled altogether if Denktash persists in trying to limit them to establishing subcommittees to conduct the substantive negotiations in Nicosia.

UN officials are increasingly concerned that Denktash may be doing Ankara's bidding and that the Turks are backing away from the agreement made by the Greek and Turkish foreign ministers in Brussels last month to reopen the talks without preconditions.



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NATO-USSR-CSCE

The NATO allies have expressed general satisfaction with the USSR's notification of all 35 signatories of the Helsinki accords that it intends to conduct a military exercise near the Turkish border later this month. There is some concern among the allies, however, that the Soviet decision to invite observers only from the Balkan countries may foreshadow a new policy initiative toward Turkey.

In general, the allies agree that the Soviets have met the requirements of the Helsinki accords. The USSR's decision to invite foreign observers not stationed in Moscow, moreover, goes beyond current Western practice, the effect of which has been to limit observers to resident military attaches.

The Soviet invitations to observers only from the Balkans contrasts with the Western practice of inviting all Helsinki signatories to send observers.

Allied concern that the Soviets may be planning a new policy initiative in the Balkans has been stimulated by:

- Premier Kosygin's visit to Ankara late last month;
- the final paragraph of the Soviet-Turkish communique, in which the Soviets expressed strong interest in the outcome of the Greek-Turkish dispute over the Aegean;
- the pending Balkan conference, where Bulgaria is expected to act as a stand-in for the Soviets.

Ankara says the Soviet notification could mean that the Soviets want to give a timely push to detente in general. The Turks also say they do not view this Soviet exercise as an unfriendly act.

The Turkish representative to NATO has advised the Western allies that his government sees no "necessary correlation" between the Kosygin visit and the Soviet maneuvers. At the same time, the Turks have counseled the other NATO allies to avoid actions that would support a later Soviet claim to a right to observe Turkish exercises.

The NATO allies, meanwhile, plan to notify the other European nations of a Western exercise scheduled to take place in Scandinavia in late February.

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USSR

The first reports of local bread shortages have appeared in the Soviet press. The Ministry of Agriculture's newspaper, *Rural Life*, has acknowledged receiving complaints of shortages from a number of widespread rural areas, one in the Ukraine and five in the Russian Republic. The article made no mention of the harvest failure last year, blaming instead the mismanagement of local supply organizations.

Although local shortages of various foods are common in the USSR, in the case of bread, regularity of supply has been affected by the poor grain harvest last year. Overall, the bread supply will probably be adequate, but spot shortages will continue. The quality of bread, however, is already declining because flour mills are extracting more flour from each bushel of milled grain.

In Moscow, white bread is available, but it is of inferior quality. During recent visits to Riga and Tallinn, US embassy officers could find only tan and dark breads for sale, indicating that bakery supplies of high-quality white flour have been drastically reduced. These shortages, combined with an expected decline in the availability of other food items particularly meat make the outlook for the consumer bleak, at least for the next few months.

The appearance of the *Rural Life* article suggests growing official concern over the deteriorating food situation. The article emphasized the disciplinary measures meted out to the local officials held responsible for the shortages. Local supply organizations are thus put on notice that they must work hard to ease distribution problems.

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ANNEX

A Turning Point in the Angolan Civil War

The military collapse of the National Front for the Liberation of Angola is a major turning point in the Angolan civil war. It is highly unlikely that the National Front will be able to regain its former military position in northern Angola as long as the Cubans remain to aid the Popular Movement for the Liberation of Angola. Given time to recuperate, the Front probably could develop a low-level insurgency in northern Angola, as it did against the Portuguese.

Zairian Choices

The collapse of the National Front presents Zairian President Mobutu, a major backer, with some hard choices. He may be tempted to underwrite an insurgency in northern Angola, but he will have to give serious consideration to the consequences.

Zairian assistance to Front insurgent operations might invite retaliation in kind, possibly against Zaire's copper-producing region of Shaba—formerly Katanga. There is the question of some 4,000 exiled followers of the late Moise Tshombe's Katangan secessionist movement. These exiles have been in Angola since the Katangan regime collapsed in 1963 and have been fighting with the Popular Movement against the National Front. Even when the Portuguese controlled Angola, Mobutu saw the Katangans as a threat, and a mere suggestion from the Popular Movement that they might be sent into Zaire may be enough to restrain Mobutu's enthusiasm for a National Front insurgency in Angola.

Zaire's copper industry relies heavily on Angola's rail and port facilities, and Mobutu cannot afford to jeopardize access to those facilities by supporting the Front guerrillas. A more realistic option—and Mobutu is a realist—is to strengthen his ties with the National Union, through whose tribal territory the currently inoperative Benguela railroad passes, and perhaps support a political coalition between the National Union and the Popular Movement.

At the moment, Mobutu must be concerned that the Angolan civil war has reached Zaire's border in two places, at Santo Antonio do Zaire in northwestern Angola and at Teixeira de Sousa in eastern Angola. The 1,000 or so Zairian troops who fought in Angola have fled back to Zaire. Mobutu must have serious misgivings about the effectiveness of his army and may not want to commit Zairian troops to further fighting at this time, despite bellicose statements that recent clashes between Popular Movement and Zairian forces at Teixeira de Sousa could lead to war.

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The National Front's collapse will quickly result in new pressures on its military and political ally, the National Union for the Total Independence of Angola. The alliance was tenuous at best and did not fulfill its tactical goal of forcing the Popular Movement into a political compromise.

From the start, the National Union regarded the Front's military capabilities with skepticism and for the most part conducted its own operations as if the alliance did not exist. Still, National Front forces on the Popular Movement's northern front, however weak, were of use to the National Union because they did tie up a good part of the Popular Movement's resources. Those resources can now be shifted to central and southern Angola.

Problems for South Africa

Fighting in central and southern Angola has increased as the Popular Movement has launched a new offensive. The National Union's position now appears to be deteriorating. This new situation will present serious problems for South Africa.

Pretoria is already giving substantial assistance to the National Union and probably has the resources to increase its support significantly. Pretoria cannot, however, hope to match the assistance available to the Popular Movement from Cuba and the Soviet Union.

Pretoria has probably been encouraged by the failure of the Organization of African Unity to condemn South African involvement in Angola, but any sudden and dramatic build-up of the South African role would doubtless bring forth new efforts to condemn Pretoria.

The South African forces appear to be in defensive positions, suggesting that Pretoria has not yet decided on future South African participation.

Political Options

The main question raised by the National Front's collapse is whether the withdrawal of the National Front—historically the Popular Movement's main adversary—offers an opening for a political settlement between the Popular Movement and the National Union. The National Union is on record in favor of political compromise and would not be held back by its political alliance with the Front.

Publicly, the Popular Movement is proclaiming that the collapse of the National Front changes nothing and that the fight will continue.

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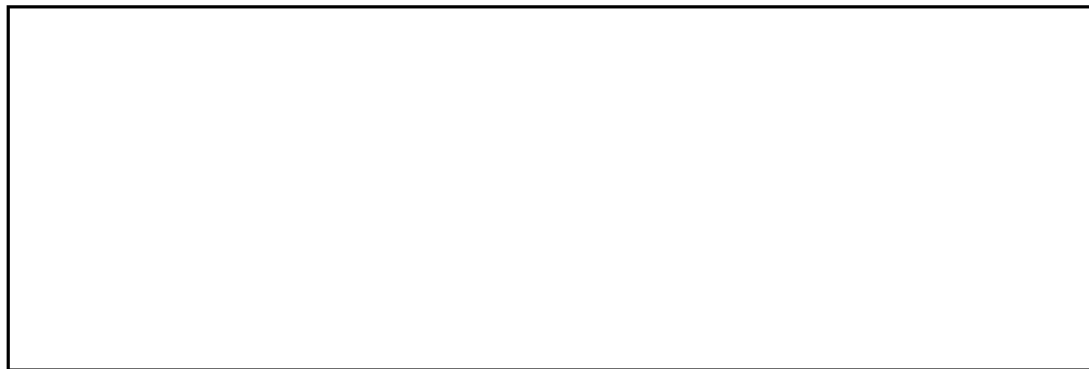
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The first proviso obviously is non-negotiable; the second could be open to discussion.

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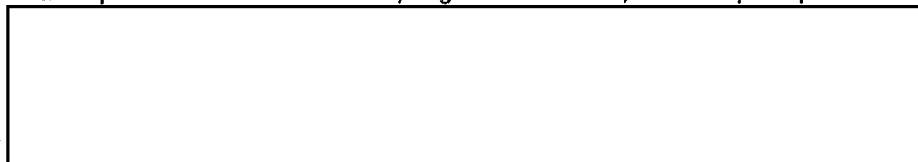
The [] information we have suggests the Popular Movement is not a monolithic organization and although the military hardliners in the organization will be encouraged by the collapse of the National Front to advocate a military solution, the organization's politicians might be sensitive to political pressures. It is quite possible that African leaders, including a number of those who support the Popular Movement, may conclude that the Movement ought now to be more flexible. If so, they may try to use whatever influence they have to resolve the Angolan problem politically.

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Soviet press commentary on Angola has thus far given little hint that the USSR is interested in a coalition. External pressure will probably be needed to convince the strong-willed Popular Movement leader, Agostinho Neto, to accept a political compromise.

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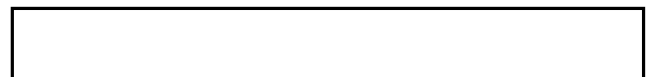
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